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Press Release on Economic and Monetary Conditions for May 2010

The economy in May 2010 expanded moderately from the previous month. Consumption spending and tourism sector declined as a result of the political unrest, albeit with limited impacts. Meanwhile, investment and exports expanded well in light of robust external demand.

External stability remained sound. With regard to internal stability, unemployment was subdued whereas headline inflation increased, partly due to rising raw food prices from unfavorable weather which led to a reduction in vegetable and fruit supply to markets.

Details of the economic conditions are as follows:

The **number of foreign tourist arrivals in Thailand** declined by 11.8 percent year-on-year (yoy) owing to the political unrest. Correspondingly, hotel occupancy rate fell to 34.9 percent mainly from a significant drop in Bangkok and the central region. However, occupancy rate in the southern region remained intact at 45.5 percent, higher than the last 5-year average of 42.9 percent. Meanwhile, **private consumption** softened but remained at a satisfactory level. Private Consumption Index (PCI) went down by 0.2 percent from the previous month in response to decreases in VAT collection, fuel consumption, and car and motorcycle sales. This was partly affected by concerns over the political unrest and the curfew declaration.

Investment continued to improve as Private Investment Index (PII) grew by 20.7 percent (yoy) or 0.9 percent from the previous month. This was supported by investment in machinery and equipment to accommodate future order bookings, especially in electronics industry, as well as investment in vehicles and parts industry to expand the production capacity. Investment in construction also ameliorated from residential and commercial construction, particularly in the northeastern and Bangkok areas. Meanwhile, **fiscal stimulus** continued to be supportive, but decelerating due to extra public holidays.

External demand remained strong. **Export** value, amounting to 16,436 million US dollars, continued to expand by 42.5 percent (yoy) in line with favorable expansions in all export categories and markets. Concurrently, **import** value, totaling 14,137 million US dollars, rose by 53.5 percent (yoy) with a broad-based expansion. Consequently, the **trade balance** resumed a surplus of 2,299 million US dollars, after the last month's deficit of 190 million US dollars. Although, **services, income and transfers account** remained in deficit in response to falling tourism income and rising investment income payments, the **current account** registered a surplus of 1,039 million US dollars. Regarding **capital movements**, there were capital outflows of 2,542 million US dollars, resulting in a **balance of payments** deficit of 989 million US dollars.

Production sector expanded satisfactorily in line with both domestic and external demand, although decelerating from the previous month. **Manufacturing Production Index** grew by 17.2 percent (yoy) but declined by 3.9 percent from the previous month after a seasonal adjustment. This was because some industries, in particular electronics industry, which were located in the curfew areas were affected by shortened working hours. However, those industries still received high order bookings. Meanwhile, **agricultural sector** expanded both production and prices. Crop production increased by 2.7 percent (yoy), following a delay of rice cultivation and an expansion of oil palm plantation area. Crop prices also edged up by 29.5 percent (yoy), resulting from rising prices of vegetable, rubber, glutinous paddy and cassava due to strong world demand and supply shortage from drought and pest outbreak. Farm income therefore rose by 33.0 percent (yoy).

Depository corporations' deposits (including bill of exchange) increased by 6.5 percent (yoy), accelerating from 4.7 percent (yoy) in the previous month, due partly to inflows from foreign investment funds and maturity of domestic debt securities. **Depository corporations' credits** further increased by 7.3 percent (yoy), particularly mortgage loans which benefited from the reduction of asset transfer, mortgage registration fee, and specific business taxes which was due expired in May (subsequently was extended to the end of June). Concurrently, credits extended to businesses resumed growth for the first time in a year, in response to increasing working capital needs.

Overall stability remained sound. With regard to **internal stability**, headline inflation accelerated from the previous month owing to rising raw food prices from unfavorable weather which led to a reduction in vegetable and fruit supply to markets. **External stability** remained solid from a high level of international reserves, a low level of external debts and a surplus in current account.

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